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SUBJECT: TANZANIA ECONOMIC ROUND-UP APRIL 2009

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1. Summary:

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- Aviation: Air Tanzania Fuel Debt Indicates Deeper Troubles
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- Agriculture: Government Addresses Food Shortages

Tanzania Faces Power Crisis; New Investment a Challenge

12. Tanzania is facing a growing power crisis as demand far exceeds supply and prospects for new investment to boost production are dim. The parastatal Tanzania Electric Supply Company (TANESCO) estimates that it needs to add 105 MW to the national grid annually in order to meet demand. TANESCO currently produces up to 600 MW, compared to peak demand of over 780 MW. (Note: About ten percent of Tanzanian citizens have access to electricity. End note.)

13. One result of the power shortage is that any factor affecting TANESCO's operations is immediately felt by customers. For example, the company announced on March 25 that residents of Dar es Salaam would be without power from 10am-2pm and 6pm-10pm daily for an unspecified period. TANESCO attributed the rationing to a shortage of parts for the routine repair of one turbine can affect power to the country's largest city demonstrates the extreme fragility of the system. The March rationing is not an isolated incident. In January, TANESCO implemented load shedding after an equipment malfunction at a major hydropower station. During this incident, Dar es Salaam underwent emergency rationing over a period of three days.

14. Compounding the challenges of a sub-capacity grid, near term prospects for investment in the sector are dim. Press reports recently cast doubt on a much talked about large-scale project aimed at producing 300 MW. The alleged withdrawal of a key investor, Barrick Mining Company, seems to have thrown the project off course. Canadian firm Artumas Group Inc, had plans to produce the power from natural gas at Mnazi Bay - where the company estimates a gas potential of three trillion cubic feet - and then transport it to the national grid. Recently, however, Artumas and TANESCO announced Barrick's withdrawal from the deal. Barrick, in turn, claimed it never entered into a formal agreement with Artumas but had been interested in the project only as a purchaser of the power to supply its mining operations. Reports indicated that Barrick was to make a USD 400 million investment, about half of the projected overall cost. On March 21, Minister of Energy and Minerals William Ngeleja announced GOT plans to rescue the project, but it is unclear how the ministry would finance the project.

15. The proposed GOT rescue of the Artumas project came on the heels of a recent failed plan for TANESCO to purchase turbines - with 100 MW generation capacity - from Dowans Holding Company. Talk of the planned purchase caused a heated debate within the government and parliament. Opponents argued that procurement of second-hand equipment would violate public procurement law and that it would be improper for the government to buy turbines that Dowans acquired via the highly controversial Richmond deal (See reftel A). Proponents argued for purchase of extant capacity as the most expedient and logical solution to the looming power crisis. TANESCO appears to have closed debate on the issue, announcing on March 6 that it would withdraw the plan to purchase the turbines.

16. Tanzania's abundant untapped coal deposits are a potential source for future power. Currently, Tanzania obtains only one percent of electricity generation from coal. Tancoal, a joint venture between Pacific Corporation East Africa of Australia and the National Development Company of Tanzania, recently announced it is conducting

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a feasibility study for construction of a 400 MW coal-fired power station and high voltage transmission line. With the substantial investment involved (an estimated USD 1.2 billion to develop coal feedstock), coal power will not have a short-term impact on Tanzania's power woes.

Air Tanzania Fuel Debt Indicates Deeper Problems

17. Total Oil Ltd. recently filed a USD 1 million lawsuit against parastatal Air Tanzania Corporation Ltd (ATCL). Filing suit in the High Court's Commercial Division, the oil company demanded payment of outstanding debt plus interest accrued from supplied jet fuel. ATCL is defending another suit in the same court brought by South African Airways (SAA). SAA is suing for payment of USD 4 million in unsettled loans following the failure of the partnership between the two airlines (See reftel B).

18. ATCL's legal woes are symptomatic of its deep financial trouble. ATCL continues to fly only a handful of domestic routes - not nearly enough to make it profitable. The International Air Transport Association recently listed ATCL among 38 airlines around the world in danger of ceasing operations due to financial constraints.

Report Questions Mining Sector Tax Practices

19. International NGO Action Aid released a report this month detailing tax evasion techniques used by major mining companies in Africa. The report, entitled, "Breaking the Curse: How Transparent Taxation and Fair Taxes can Turn Africa's Mineral Wealth into Development," argues that mineral rich countries in Africa have not been able to optimize mining tax revenue because mining companies are granted too many tax subsidies and concessions and because companies practice tax avoidance through such measures as secret contracts, corporate mergers and acquisitions, and "creative" accounting mechanisms.

110. In Tanzania, the report alleges, only one of six major mining companies (AngloGold Ashanti) had paid corporate income tax as of the end of 2008, despite earning tens of millions of dollars over several years. The report goes on to detail how the companies have under-declared revenues, negotiated preferential tax deals with the government resulting in estimated losses in the hundreds of millions of dollars, and failed to cooperate with government appointed auditors. Both the Ministry for Energy and Minerals and Barrick Mining Company made statements refuting the report's findings.

111. Several days before the release of the ActionAid report, Tanzania's Minister of Energy and Minerals, William Ngeleja, announced that the country would have a new mining law in place by June. Ngeleja was vague in addressing details of the new law, but attempted to downplay its potential effects on investors saying law would not have a significant impact on existing investments. In 2007, President Kikwete appointed a panel headed by Judge Mark Bomani to review mining contracts and propose corrective measures. Although the report was said to have been completed by the summer of 2008, its findings - which would likely be the basis for a revised law - have not been made public.

Check Capping, Interbank Transactions Slow Business

112. In March, Tanzania began implementation of a check capping system aimed at stemming fraudulent activities and mitigating risks related to the use of checks. Both company and bank checks in Tanzania with a face value of Tsh 10 million (approx. USD 8 thousand) and above are no longer being accepted in the clearing houses. Larger transactions must be effected through an electronic payment system - the Tanzania Interbank Settlement System (TISS). Introduction of this measure has proven difficult for many banks, leading to the piling up of uncleared transactions. Transactions that would otherwise have taken minutes have been delayed by days or even weeks. Companies have complained of losing contracts due to an inability to meet payment commitments, and workers have faced delays in receiving salary payments. Although the measure is mandated by a 2006 East African Community directive, Tanzania was the first country in the region to implement the system.

MOF Convenes Forum on Global Financial Crisis

113. On March 27-28, the Ministry of Finance convened a forum on the

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state of Tanzania's economy in the international economic crisis. Government, international organizations and donor countries were well represented; the private sector was almost entirely absent.

114. Coming on the heels of the Africa-IMF meetings (See Reflet C), the Forum was intended as a venue to discuss the challenges facing Tanzania as well as offer solutions. Panelists mostly covered the conventional wisdom: while Tanzania's financial sector would be somewhat insulated from the affects of the crisis (due to recent reforms and because it is not well integrated into the global market), the country would likely suffer declining demand for its export products, steep drops in tourism revenue, falling rates of FDI and potentially development assistance (although donors have made commitments to continued funding), and declining remittances (which were small to begin with).

115. Proposed responses were also mainly confined to standard advice: make a more aggressive effort at revenue collection, Qus on attracting FDI, continue rigorous surveillance and oversight of the financial sector, and invest heavily in agriculture and infrastructure. One NGO suggested that the GOT reduce its procurement of luxury vehicles, causing some shuffling in seats but no other response. Although all participants agreed about the paramount importance of attracting FDI and the topic was discussed at length, there were no concrete suggestions offered other than a need for "reform."

IMF Supports Tanzanian Stimulus Package

116. An IMF delegation visited Tanzania from March 17-21 to conduct the 2009 Article IV consultation and a review under the Policy support initiative (PSI). Mr. Roger Nord, the IMF Chief of Mission, announced a revised estimate for Tanzania's economic growth predicting percent in 2009, a drop from 7.5 percent in 2008. Nord also announced the IMF's support for a Tanzanian stimulus package which would allow the budget deficit for 2008/2009 to widen by about 3 percent of GDP. Last week, the Tanzanian Ministry of Finance forecast the country's economic growth at 6.5 percent for 2009. The Bank of Tanzania's most recent estimate is 5-6 percent.

Government Addresses Food Shortages

117. In response to food shortages in several parts of the country, the GOT has allowed tax-free imports of 300,000 tons of maize for three months, through May 31. Agriculture Minister Steven Wassira told journalists in Dar es Salaam that more than 240,000 people in Tanzania are in urgent need of food aid, while 12,000 others would have to get food supplies at subsidized prices as the growing food crisis takes its toll in some regions. The pending food shortage, particularly for low income households, results in part from failure of the 2008 rains in parts of the country that generate 30 percent of annual national crop production. Because many farmers who lost their crop during the 2008/2009 season will have trouble obtaining seed for the coming season, the government also released Tsh 1.7 billion (approx. USD 1.3 million) for the procurement and distribution of seed in several regions.

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